

ACC501 Current 11 Solved Finalterm Papers and Important MCQS

Solved...

EXAMINATION

Question No: 1 (Marks: 1) - Please choose one

The accounting definition of income is:

- ▶ Income = Current Assets - Current Liabilities
- ▶ Income = Fixed Assets - Current Assets
- ▶ Income = Revenues - Current Liabilities
- ▶ Income = Revenues - Expenses pg 17

Question No: 2 (Marks: 1) - Please choose one

What would be the capital spending for an organization who has purchased fixed assets of Rs. 200,000 and sold fixed assets of Rs. 45,000?

- ▶ Rs. 245,000
- ▶ Rs. 200,000
- ▶ Rs.155,000
- ▶ Rs. 45,000

$$200000 - 45000 = 155000$$

Question No: 3 (Marks: 1) - Please choose one

Selected information from SNT Company's accounting records is as follows:

- o Cash paid to retired common shares Rs. 15,000
- o Proceeds from issuance of preferred shares Rs. 20,000
- o Cash dividends paid Rs. 8,000

o Proceeds from sale of equipment Rs. 25,000
On its cash flow statement for the year, SNT Company should report net cash flow from financing activities as:

- ▶ Rs. 3,000 net cash inflow
- ▶ Rs. 3,000 net cash outflow
- ▶ **Rs. 8,000 net cash inflow**
- ▶ Rs. 8,000 net cash inflow

Question No: 4 (Marks: 1) - Please choose one

SNT Company has a current ratio of 3:2. Current Liabilities reported by the company are Rs. 30,000 . What would be the Net Working Capital for the company?

- ▶ Rs. 45,000
- ▶ **Rs. 15,000**
- ▶ (Rs. 45,000)
- ▶ (Rs. 15,000)

Question No: 5 (Marks: 1) - Please choose one

Which of the following would not improve the current ratio?

- ▶ Borrow short-term to finance additional fixed assets
- ▶ **Issue long-term debt to buy inventory**
- ▶ Sell common stock to reduce current liabilities
- ▶ Sell fixed assets to reduce accounts payable

Question No: 6 (Marks: 1) - Please choose one

Which of the following are incorporated into the calculation of the Du -Pont Identity?

- I. Return on assets
- II. Equity Multiplier
- III. Total Assets Turnover
- IV. Profit Margin

- ▶ I, II, and III only
- ▶ I, III, and IV only
- ▶ **II, III and IV only pg 45**
- ▶ I, II, III, and IV

Question No: 7 (Marks: 1) - Please choose one

The concepts of present value and future value are:

- ▶ Directly related to each other
- ▶ Not related to each other
- ▶ Proportionately related to each other
- ▶ **Inversely related to each other**

Question No: 8 (Marks: 1) - Please choose one

Which of the following is a special case of annuity, where the stream of cash flows continues forever?

- ▶ Special Annuity
- ▶ **Ordinary Annuity**
- ▶ Annuity Due

► Perpetuity

Question No: 9 (Marks: 1) - Please choose one

Which of the following is an unsecured bond for which no specific pledge of property is made?

► Mortgage

► **Debenture**

► Collateral

► Note Payable

Debenture is an unsecured bond for which no specific pledge of property is made

Question No: 10 (Marks: 1) - Please choose one

Which of the following type of return refers to the percentage change in the amount of money you have?

► **Nominal return**

► Real return

► Inflation return

► None of the given option

Your *nominal* return is the percentage change in the amount of money you have.

Question No: 11 (Marks: 1) - Please choose one

When real rate is _____, all interest rates will tend to be _____.

► Low; higher

► High; lower

► **High; higher**

► None of the given options

When real rate is high, all interest rates will tend to be higher and vice versa.

Question No: 12 (Marks: 1) - Please choose one

Which of the following is the extra yield that investors demand on a taxable bond as a compensation for the unfavorable tax treatment?

► Interest rate risk premium

► Inflation risk premium

► Default risk premium

► **Taxability premium**

Investors demand extra yield on a taxable bond as a compensation for the unfavorable tax treatment, known as **taxability premium**

Question No: 13 (Marks: 1) - Please choose one

In which type of the market, previously issued securities are traded among investors ?

► Primary Market

► **Secondary Market pg 100**

► Tertiary Market

► None of the given options

Secondary Market

The market in which previously issued securities are traded among

investors

Question No: 14 (Marks: 1) - Please choose one

Place the following items in the proper order of completion regarding the capital budgeting process.

(I) Perform a post-audit for completed projects; (II) Generate project proposals; (III) Estimate appropriate cash flows; (IV) Select value-maximizing projects; (V) Evaluate projects.

► II, V, III, IV, and I

► III, II, V, IV, and I

► II, III, V, IV, and I

► II, III, IV, V, and I

<http://wps.pearsoned.co.uk/wps/grader>

Question No: 15 (Marks: 1) - Please choose one

An investment will be _____ if the IRR doesn't exceed the required return and _____ otherwise.

► Accepted; rejected

► Accepted; accepted

► Rejected; rejected

► Rejected; accepted pg 109

Question No: 16 (Marks: 1) - Please choose one

IRR and NPV rules always lead to identical decisions as long as :

- ▶ Cash flows are conventional
- ▶ Cash flows are independent
- ▶ **Cash flows are both conventional and independent**
- ▶ None of the given options

Question No: 17 (Marks: 1) - Please choose one

A project whose acceptance does not prevent or require the acceptance of one or more alternative projects is referred to as :

- ▶ **A mutually exclusive project**
- ▶ An independent project
- ▶ A dependent project
- ▶ A contingent project

Question No: 18 (Marks: 1) - Please choose one

Finding Net Present Value comes under which type of capital budgeting criteria ?

- ▶ **Discounted Cash Flow Criteria** pg 118
- ▶ Accounting Criteria
- ▶ Payback Criteria
- ▶ None of the given options

Question No: 19 (Marks: 1) - Please choose one

_____ Cost is an outlay that has already occurred and hence is not affected by

the decision under consideration.

► **Sunk**

- Opportunity
- Fixed
- Variable

Question No: 20 (Marks: 1) - Please choose one

Which of the following is the overall return the firm must earn on its existing assets to maintain the value of the stock ?

► **WACC (Weighted Average Cost of Capital)**

- AAR (Average Accounting Return)
- IRR (Internal Rate of Return)
- MIRR (Modified Internal Rate of Return)

Question No: 21 (Marks: 1) - Please choose one

Mr. A, as a financial consultant, has prepared a feasibility report of a project for XYZ Company that the company is planning to undertake. He has suggested that the project is feasible. The consultancy fee paid to Mr. A will be considered as:

► **Sunk cost**

- Opportunity cost
- Both sunk cost and opportunity cost
- Neither sunk cost nor opportunity cost

Question No: 22 (Marks: 1) - Please choose one

The current price of SNT stock is Rs. 50. Dividends are expected to grow at 7 percent indefinitely and the most current dividend was Rs. 1.00. What is the

required rate of return on SNT stock?

- ▶ 9.00 percent
- ▶ 9.14 percent
- ▶ **9.33 percent**
- ▶ 10.65 percent

Question No: 23 (Marks: 1) - Please choose one

Which of the following are rights of an owner of a share of common stock for firm which has no preferred share?

- ▶ The right to vote for directors
- ▶ **The right to share proportionately in dividend paid**
- ▶ The right to vote on stockholder matters of great importance ▶ All of the given options

Question No: 24 (Marks: 1) - Please choose one

Which one of the following typically applies to preferred stock but not to common stock?

- ▶ Dividend yield
- ▶ **Cumulative dividends**
- ▶ Voting rights
- ▶ Tax deductible dividends

Question No: 25 (Marks: 1) - Please choose one

You must own which of the following to vote against a merger proposal from another corporation?

- ▶ Preferred share
- ▶ A debenture
- ▶ **Common stock**
- ▶ Cumulative dividend stock

Question No: 26 (Marks: 1) - Please choose one

Which of the following strategy belongs to flexible policy regarding size of investments in current assets ?

- ▶ **To maintain a high ratio of current assets to sales**
- ▶ To maintain a low ratio of current assets to sales
- ▶ To maintain less short-term debt and more long-term debt
- ▶ To maintain more short-term debt and less long-term debt

Size of investments in current assets

- Flexible policy
- **maintain a high ratio of current assets to sales**
- Restrictive policy
- **maintain a low ratio of current assets to sales**

Financing of current assets

- Flexible policy
- **less short-term debt and more long-term debt**
- Restrictive policy
- **more short-term debt and less long-term debt**

If policies

Question No: 27 (Marks: 1) - Please choose one

Which of the following strategy belongs to flexible policy regarding financing of

current assets ?

- ▶ To maintain a high ratio of current assets to sales
- ▶ To maintain a low ratio of current assets to sales
- ▶ **To maintain less short-term debt and more long-term debt**
- ▶ To maintain more short-term debt and less long-term debt

Question No: 28 (Marks: 1) - Please choose one

Suppose you have Rs. 10,000 on deposit. One day, you write a cheque for Rs. 2,000 and deposit Rs. 4,000. What is your collection float ?

- ▶ **Rs. 4,000**
- ▶ + Rs. 2,000
- ▶ Rs. 2,000
- ▶ + Rs. 4,000

Question No: 30 (Marks: 1) - Please choose one

Which of the following is known as the group of assets such as stocks and bonds held by an investor ?

- ▶ Stock Bundle
- ▶ **Portfolio**
- ▶ Capital Structure
- ▶ None of the given options

Question No: 31 (Marks: 1) - Please choose one

Which of the following is referred as the ratio of the standard deviation of a distribution to the mean of that distribution ?

- ▶ Probability distribution
- ▶ **The expected return**
- ▶ The standard deviation
- ▶ Coefficient of variation

Question No: 32 (Marks: 1) - Please choose one

The MC Inc. purchased a share of common stock exactly one year ago for Rs. 45. During the past year the common stock paid an annual dividend of Rs. 2.40. The firm sold the stock today for Rs. 80. What is the rate of return the firm has earned?

- ▶ 5.3%
- ▶ **194.2%**
- ▶ 83.11%
- ▶ 94.2%

Question No: 33 (Marks: 1) - Please choose one

Mr. Sami has bought 50 shares of a corporation one year ago at Rs. 20 per share. Over the last year, he received a dividend of Rs. 2 per share. At the end of the year, the stock sells for Rs. 25. As per given information, what will be his total percentage return ?

- ▶ 10 %
- ▶ **20 %**

► 35 %

► 45 %

Dividend yield = $2/20 = 0.1\%$

Capital gain yield = $(25-20)/20 = 0.25\%$

Total percentage return $0.1 + 0.25 * 100 = 35\%$

Question No: 34 (Marks: 1) - Please choose one

While performing the feasibility analysis for a project, an operating cash flow of Rs. 225,000 has been calculated. Net working capital has declined by Rs. 40,000. There was a net capital spending of Rs. 100,000 during the year. What will be the total cash flow for the project?

► Rs. 85,000

► **Rs. 165,000**

► Rs. 285,000

► Rs. 365,000

Operating cash
flow - change in
NWC - Capital
spending
 $225000 - (-40000) -$
 $100000 = 165000$

Question No: 35 (Marks: 1) - Please choose one

The total market value of a company's stocks is calculated as Rs. 250 million and the total market value of the company's debt are calculated as Rs. 150 million. What percent of the firm's financing is debt?

► **37.50%**

► 50.00%

► 62.50%

► 70.00%

$$250+150=400$$

$$250/400=0.625$$

$$0.625*100=62.5 \text{ is equity and}$$

$$100-62.5=37.5 \text{ is debt}$$

Question No: 36 (Marks: 1) - Please choose one

Suppose a firm borrow s Rs. 800,000 at 7%. What w ill be the after -tax interest rate if tax rate is 34% ?

► 3.00%

► 4.62%

► 5.20%

► 8.00%

$$\begin{aligned} &R_D \times (1 \\ &- T_c). \\ &7\% \times (1- \\ &0.34) = 4 \\ &.62 \end{aligned}$$

Question No: 37 (Marks: 1) - Please choose one

Opportunity losses from having inadequate inventory are termed as:

► Carrying costs

► Opportunity costs

► Restocking costs

► Safety reserve costs

Restocking costs - costs of placing an order with suppliers or the cost of setting up a production run

- **Safety reserve costs** - opportunity losses from having inadequate inventory e.g. lost sales and goodwill
- A trade-off
- Carrying costs increase with inventory levels and shortage or restocking costs decline with inventory levels
 - The goal of inventory management is to minimize the sum of these two costs

Question No: 38 (Marks: 1) - Please choose one

What will be the Economic Order Quantity (EOQ) if total unit sales (T) = 400, fixed costs (F) = Rs. 30 and carrying costs (CC) = Rs. 5 ?

- ▶ 65 units
- ▶ **69 units**
- ▶ 89 units
- ▶ 95 units

$$EOQ = \frac{(2T \times F)}{CC}^{1/2}$$

$$2 \times 400 = 800$$

$$800 \times 30 = 24000$$

$$24000 / 5 = 4800$$

$$4800^{0.5} = 69.28$$

Question No: 39 (Marks: 1) - Please choose one

The cost of common equity for a firm is:

- ▶ The required rate of return on the company's stock
- ▶ The yield to maturity on the bond
- ▶ **The risk-free rate**
- ▶ The market risk premium

Question No: 40 (Marks: 1) - Please choose one

A firm has 3 million in common stock, 1 million in preferred stock and 2 million in debt. What is the percentage of firm's financing that is debt ?

- ▶ 20%
- ▶ 33%
- ▶ 40%
- ▶ 67%

Question No: 41 (Marks: 1) - Please choose one

The book value of a system is Rs. 50,350 at the end of year 3 of its life. What will be the total after-tax cash flow from sale if we sell this system for Rs. 30,000 at this time? (Tax rate is 34%)

- ▶ Rs. 20,350
- ▶ Rs. 30,919
- ▶ **Rs. 36,919**

▶ Rs. 80,350

$$50350 - 30000 = 20350 \times 34\% = 6919$$
$$30000 + 6919 = 36919$$

Question No: 42 (Marks: 1) - Please choose one

What will be the variance if standard deviation for the returns of an investment is 0.2829 ?

- ▶ 0.0800

► 0.0892

► 0.5319

► Cannot be estimated without more information

Question No: 43 (Marks: 3)

Write down the components of total return in terms of dividend growth model.
Answer

$$R = D_1 / P_0 + g$$

☐ This tells us that the total return, R, has two components

☐ D_1 / P_0 is called the **Dividend Yield**. Because this is calculated as the expected cash dividend by the current price, it is conceptually similar to the current yield on a bond

☐ Growth rate, g, is also the rate at which the stock price grows. So it can be interpreted as **capital gains yield**

Question No: 44 (Marks: 3)

What is the difference between operating cycle and cash cycle?

The operating cycle is the sum of the inventory and receivable periods

Operating cycle = Inventory period + Receivable period

Cash cycle

• The time between cash disbursement and cash collection. (We spend cash on day 30, but don't collect until

day 105. so we have to arrange finances \$1,000 for $105 - 30 = 75$ days)

• So we can describe the cash cycle as:

Cash cycle = Operating cycle - Accounts payable period

75 days = 105 days - 30 days

Question No: 45 (Marks: 3)

How a firm's overall cost of capital is calculated ?

We know that a firm's overall cost of capital will reflect the required return on the firm's assets as a whole.

• Given that a firm uses both debt and equity capital, this overall cost of capital will be a mixture of the returns needed to compensate its creditors and stockholders.

- Cost of capital will reflect
- Cost of equity capital
- Cost of debt capital
- Cost of Equity

Question No: 46 (Marks: 5)

Define the following terms:

(i) Dealer

An agent who buys and sells securities from a maintained inventory

It stands ready to buy securities from investors wishing to sell them and sells securities to investors

wishing to buy them

(ii) Broker

An agent who arranges security transactions among investors, matching investors wishing to buy securities with investors wishing to sell securities

□ They do not buy or sell securities for their own accounts. Facilitating trades others is their business

(iii) Bid Price

(iv) Strike Price

The price that the dealer wishes to pay is the bid price and the price at which the dealer sells the securities is called the strike price.

(v) Spread

The difference between the bid and ask price is called the spread

Question No: 47 (Marks: 5)

A firm has a total value of Rs. 1 million and debt valued at Rs. 400,000. What is the after-tax weighted average cost of capital if the cost of debt is 12%, the cost of equity is 15% and tax rate is 35% ?

Question No: 48 (Marks: 10)

SNT & Co. has the following Target capital structure :

Debentures = Rs. 5.00 Billion

Preferred shares	=	Rs. 2.65 Billion
Common shares	=	Rs. 9.35 Billion
Total	=	Rs. 17 Billion

Bonds carry an interest rate of 11.5%. Common stocks and Preferred stocks have a return of 15.50 % and 12% respectively and corporate tax rate is 40%. Compute the present Weighted Average Cost of Capital (WACC) for SNT & Co.

Question No: 49 (Marks: 10)

Standard Manufacturing Company (SMC) need s one of two machines. Machine X costs Rs. 25,000 and has cash flow s of Rs. 8,000 a year for six years. Machine Y costs Rs. 30,000 and has cash flow s Rs. 7,000 a year for six years. SMC has 12% cost of capital. Calculate each machine s Payback Period and NPV (N et Present Value) and evaluate the results.

Paper 2

Question No: 1 (Marks: 1) - Please choose one

Which of the following is the difference between current assets and current? Liabilities?

- ▶ Surplus Asset
- ▶ Short-term Ratio
- ▶ Working Capital
- ▶ Current Ratio

Question No: 2 (Marks: 1) - Please choose one

A business owned by a single person is known as:

- ▶ Sole-proprietorship
- ▶ General partnership
- ▶ Limited partnership

- ▶ Corporation

Question No: 3 (Marks: 1) - Please choose one

In a common-size balance sheet, all items are shown as a percentage of:

- ▶ Total Assets
- ▶ Total Liabilities
- ▶ Total Owners Equity
- ▶ None of the given options

Question No: 4 (Marks: 1) - Please choose one

A company's ability to meet long-term obligations can be estimated by using which of the following set of ratios?

- ▶ Liquidity Ratio
- ▶ Solvency Ratios
- ▶ Asset Management Ratios
- ▶ Market Value Ratios

pg 34

Question No: 5 (Marks: 1) - Please choose one

According to Du Pont Identity, ROE is affected by which of the following?

- ▶ Operating efficiency
- ▶ Asset use efficiency
- ▶ Financial Leverage

▶ All of the given options

The Du Pont identity tells us that ROE is affected by three things:

- ☐ Operating efficiency (as measured by profit margin)
- ☐ Asset use efficiency (as measured by total assets turnover)

☐ Financial Leverage (as measured by equity multiplier)

Question No: 6 (Marks: 1) - Please choose one

Which of the following is a series of constant cash flows that occur at the end of? each period for some fixed number of periods?

- ▶ **Ordinary annuity**
- ▶ Annuity due
- ▶ Perpetuity
- ▶ None of the given options

A series of constant, or level, cash flows that occur at the end of each period for some fixed number of periods is called an ordinary **Annuity**

Question No: 7 (Marks: 1) - Please choose one

A portion of profits, which a company distributes among its shareholders, is known as:

- ▶ **Dividends**
- ▶ Retained Earnings
- ▶ Capital Gain
- ▶ Interest

Question No: 8 (Marks: 1) - Please choose one

What amount a borrower would pay at the end of fourth year with a 4 -year, 12%, interest-only loan of Rs. 3,000?

- ▶ Rs. 360
- ▶ Rs. 2,000
- ▶ Rs. 3,000
- ▶ **Rs. 3,360**

Question No: 9 (Marks: 1) - Please choose one

A company issues bonds with a Rs. 1,000 face value. What is the coupon rate if the coupon payments of Rs. 45 are paid every 6 months?

- ▶ 3 percent
- ▶ 6 percent
- ▶ 9 percent
- ▶ 12 percent

Question No: 10 (Marks: 1) - Please choose one

Given two bonds identical but for maturity, the price of the longer-term bond will change _ _ _ _ _ that of the shorter-term bond, for a given change in market interest rates.

- ▶ More than
- ▶ Less than
- ▶ Equal to
- ▶ None of the given options

Question No: 11 (Marks: 1) - Please choose one

When corporations borrow, they generally promise to:

- I. Make regular scheduled interest payments
- II. Give the right of voting to bondholders
- III. Repay the original amount borrowed (principal)
- IV. Give an ownership interest in the firm

- ▶ I and II

▶ I and III pg

77

► II and IV

► I, III, and IV

Question No: 12 (Marks: 1) - Please choose one

Which of the following allows a company to repurchase part or all of the bond? issue at a stated price?

► Repayment

► Seniority

► **Call provision**

► Protective covenants

Question No: 13 (Marks: 1) - Please choose one

Sumi Inc. has policy of paying a Rs. 9 per share dividend every year. If this policy is to continue indefinitely, what will be the value of a share of stock at a 12% required rate of return?

► Rs. 30

► Rs. 45

► Rs. 60

► **Rs. 75**

$9/0.12=75$

Question No: 14 (Marks: 1) - Please choose one

In which type of the market, previously issued securities are traded among investors ?

Primary Market

Secondary Market

Tertiary Market

None of the given options

Question No: 15 (Marks: 1) - Please choose one

An investment should be accepted if the net present value is _____ and rejected if it is _____.

Positive; positive

Positive; negative

Negative; negative

Negative; positive

Question No: 16 (Marks: 1) - Please choose one

The XYZ Corporation is considering an investment that will cost Rs. 80,000 and have a useful life of 4 years. During the first 2 years, the net incremental after-tax cash flows are Rs. 25,000 per year and for the last two years they are Rs. 20,000 per year. What is the payback period for this investment ?

3.2 Years

3.5 Years

4.0 Years

Cannot be determined from the given information

Question No: 17 (Marks: 1) - Please choose one

Which of the following statement is INCORRECT regarding a normal project ?

If the IRR of a project is greater than the discount rate, k , then its PI will be

greater than 1

If the NPV of a project is greater than 0, then its PI will exceed 1

If the IRR of a project is 8%, its NPV, using a discount rate, k , greater than 8%, will be less than 0

If the PI of a project equals 0, then the project's initial cash outflow equals the PV of its cash flows

Question No: 18 (Marks: 1) - Please choose one

Which of the following set of cash flows represent the change in the firm's total cash flow that occurs as direct result of accepting the project ?

Relevant Cash Flows

Incremental Cash Flows

Negative Cash Flows

All of the given options

Question No: 19 (Marks: 1) - Please choose one

Which of the following is NOT a problem while determining incremental cash flows?

Merchandise cost

Sunk cost

Opportunity cost

None of the given options

Question No: 20 (Marks: 1) - Please choose one

_____ Cost refers to the cash flows that could be generated from an asset the firm already owns provided it is not used for the project in question.

Sunk

Opportunity

Fixed

Variable

Question No: 21 (Marks: 1) - Please choose one

The overall (weighted average) cost of capital is composed of a weighted average of :

The cost of common equity and the cost of debt pg 146

The cost of common equity and the cost of preferred stock
The cost of preferred stock and the cost of debt

The cost of common equity, the cost of preferred stock, and the cost of debt

Question No: 22 (Marks: 1) - Please choose one

Which of the following is a characteristic of preferred stock?

These stocks have not stated liquidating value

Dividends on these stocks can be cumulative
pg100

These stocks hold credit ratings quite different from bonds

These stocks have not any kind of priority over common stocks

Question No: 23 (Marks: 1) - Please choose one

Mr. A, as a financial consultant, has prepared a feasibility report of a project for

XYZ Company that the company is planning to undertake. He has suggested that the project is feasible. The consultancy fee paid to Mr. A will be considered as:

Sunk cost

Opportunity cost

Both sunk cost and opportunity cost

Neither sunk cost nor opportunity cost

Question No: 24 (Marks: 1) - Please choose one

One would be indifferent between taking and not taking the investment when:

NPV is greater than Zero

NPV is equal to Zero

NPV is less than Zero

All of the given options

Question No: 25 (Marks: 1) - Please choose one

Which of the following is a measure of accounting profit relative to book value?

Net Present Value

Profitability Index

Internal Rate of Return

Average Accounting Return

Average Accounting Return

- AAR is a measure of accounting profit relative to book value

- AAR rule is to take an investment if its AAR exceeds a benchmark

AAR

Question No: 26 (Marks: 1) - Please choose one

Which of the following M&M propositions states that it is completely irrelevant how a firm chooses to arrange its finances ?

1st proposition

2nd proposition

3rd proposition

None of the given options

Question No: 27 (Marks: 1) - Please choose one

According to 2nd M&M proposition, cost of equity does NOT depend upon which of the following ?

The required return of firm's assets

The firm's cost of debt

The firm's stockholders pg 153

The firm's debt-equity ratio

Question No: 28 (Marks: 1) - Please choose one

Which of the following risk is associated with the unique circumstances of a particular company ?

Financial Risk

Business Risk found on internet

Functional Risk

None of the given options

Question No: 29

(Marks: 1) - Please choose one

Which of the following type of risk influences a large number of assets ?

Systematic Risk

Unsystematic Risk

Diversifiable Risk

Asset-specific risk

The true risk of an investment is the unanticipated or surprising part of the return.

• If we always receive exactly what we expect then the investment will be risk-free.

• Systematic Risk

• A risk that influences a large number of assets. It is also called market risk

Question No: 30 (Marks: 1) - Please choose one

Which of the following is an example of unsystematic risk ?

Increasing Recession

Rise in Interest Rate

Rise in Inflation

Strike call in a company pg 140

Question No: 31 (Marks: 1) - Please choose one

A set of possible values that a random variable can assume and their associated probabilities of occurrence are referred as :

Probability distribution

The expected return

The standard deviation

Coefficient of variation

Question No: 32 (Marks: 1) - Please choose one

Mr. Sami has bought 50 shares of a corporation one year ago at Rs. 20 per share. Over the last year, you received a dividend of Rs. 2 per share. At the end of the year, the stock sells for Rs. 25. If Mr. Sami sells the stock at the end of the year, what will be his total cash inflow ?

Rs. 100

Rs. 250

Rs. 1,000

Rs. 1,350

$50 \times 20 = 1000$

$50 \times 25 = 1250$

$1250 - 1000 = 250$

Question No: 33 (Marks: 1) - Please choose one

While performing the feasibility analysis for a project, an operating cash flow of Rs. 250,000 has been calculated . Net working capital has increased by Rs. 50,000. There was no capital spending during the year. What will be the total cash flow for the project?

Rs. 170,000

Rs. 200,000

Rs. 215,000

Rs. 230,000

$2050000 -$

$(+50000)$

200000

Question No: 34 (Marks: 1) - Please choose one

Autos & computers are included in which of the following MACRS property

class?

3-year

5-year

7-year

None of the given options

3-year Equipment used in research

5-year Autos, Computers

7-year Most industrial equipment

Question No: 35 (Marks: 1) - Please choose one

The next dividend for a company is Rs. 5 per share. The stock current price is Rs. 50 per share. What will be the cost of capital if the dividends are estimated to grow steadily at 5%?

12.88%

13.07%

14.22%

**15.00% pg
142**

Question No: 36 (Marks: 1) - Please choose one

Trade credit is more likely to be granted if:

The selling firm has a cost advantage over other lenders

The selling firm can engage in price discrimination

The selling firm can obtain favorable tax treatment

All of the given options

Trade Credit is more likely to be granted if:

- The selling firm has a cost advantage over other lenders.
- The selling firm can engage in price discrimination.
- The selling firm can obtain favorable tax treatment.
- The selling firm has no established reputation for quality products or services.
- The selling firm perceives a long-term strategic relationship.
- The optimal credit policy depends on the characteristics of particular firms.
 - Excess capacity

Question No: 37 (Marks: 1) - Please choose one

A firm makes a sale of Rs. 2,000 on January 05, 2005. The firm is offering credit term of 3/10 net 30. How much it will receive if the customer makes the payment on January 09, 2005 ?

Rs. 1,000

Rs. 1,940

Rs. 2,000

Rs. 2,100

Question No: 38 (Marks: 1) - Please choose one

Shortage or Restocking costs _____ with inventory levels

Rise

Decline

Remain unaffected

None of the given options
Carrying costs increase with inventory levels and shortage or restocking costs decline with inventory levels

Question No: 39 (Marks: 1) - Please choose one

Which one of the following motives refers to the need for holding cash to satisfy normal disbursement and collection activities associated with a firm's ongoing Operations?

Speculative motive

Transaction motive

Precautionary motive

Personal motive

Speculative Motive - the need to hold cash to take advantage of additional investment opportunities, such as bargain purchases, attractive interest rates and favorable exchange rate fluctuations.

• Reserve borrowing utility and Marketable securities

• **Transaction Motive** - the need to hold cash to satisfy normal disbursement and collection activities

associated with a firm's ongoing operations.

Question No: 40 (Marks: 1) - Please choose one

What would be the standard deviation of returns for an investment that has a Variance of 0.008?

0.08944

0.09101

0.09487

0.10521

Question No: 41 (Marks: 1) - Please choose one

A firm has 3 million in common stock, 1 million in preferred stock and 2 million in debt. What is the debt to capitalization ratio?

20%

33%

40%

67%

Question No: 42 (Marks: 1) - Please choose one

Which of the following statement is INCORRECT regarding financial leverage ?

Financial leverage can dramatically alter the payoffs to the shareholders.

Financial leverage refers to the extent to which a firm relies on the debt.

Financial leverage must affect the overall cost of capital in any condition. pg 149

Financial leverage may not affect the overall cost of capital.

Question No: 43 (Marks: 3)

Define Net Present Value (NPV) and write down the NPV rule to accept a project.

Question No: 44 (Marks: 3)

What do you mean by the terms of business risk and financial risk?

Question No: 45 (Marks: 3)

Suppose there is an operating cash flow of Rs. 520,000. Net working capital has increased by Rs. 200,000 and there is a net capital spending of Rs. 120,000 during the year. Calculate total cash flow.

Question No: 46 (Marks: 5)

A replacement project has an initial investment of Rs.10,000; and cash flows are Rs.3,400; Rs. 2,500; Rs.3,900; and Rs.5,200 for years 1 through 4, respectively. The

firm has decided to assume that the appropriate cost of capital is 10%. What will be the net present value of the project? Is the project feasible?

Question No: 47 (Marks: 5)

Describe the relationship between capital structure and weighted average cost of capital (WACC).

Question No: 48 (Marks: 10)

The capital budgeting director of MKJ Inc. is supposed to analyze two proposed capital investments projects S and T. Each project has a cost of Rs.100,000, and the cost of capital (discounting rate) for each project is 12%. The projects expected net cash flows are as follows :

Year	Cash flow rs	
	Project A	Project B
1	30000	30000
2	30000	30000
3	35000	20000
4	25000	30000
5	25000	250000

Calculate Internal Rate of Return (IRR) for both projects. On the basis of findings in (i):

- Which project should be selected if projects are mutually exclusive?
- Which project or projects should be selected if projects are independent

Question No: 49 (Marks: 10)

Identify the sources and uses of cash and complete the table by following the example.

Example	Increasing	Source
Increasing current liabilities		
1. Increasing fixed asset		
2. Decreasing equity		
3. Increasing long-term debt		
4. Decreasing fixed assets		
5. Increasing current assets other than cash		

6. Increasing equity
7. Decreasing long-term debt
8. Decreasing current assets other than cash
9. Accounts Payable go up by Rs. 1,500
10. Accounts receivable go up by Rs. 2,000

Paper 3

FINAL TERM EXAMINATION

Question No: 1 (Marks: 1) - Please choose one

Which of the following refers to a conflict of interest between principal and agent?

Management Conflict

Interest Conflict

Agency Problem

None of the given options

The Agency Problem

- ☐ Agency relationship
- ☐ Principal hires an agent to represent their interest
- ☐ Stockholders (principals) hire managers (agents) to run the company
- ☐ Agency problem
- ☐ Conflict of interest between principal and agent
 - ☐ Management goals and agency costs

Question No: 2 (Marks: 1) - Please choose one

Which of the following term refers to the ease and quickness with which assets can be converted to cash?

Analysis

Structuring

Budgeting

Liquidity pg 14

Question No: 3 (Marks: 1) - Please choose one

Product costs do NOT include which of the following?

Raw material

Direct labor

Manufacturing overhead

Administrative expenses

Question No: 4 (Marks: 1) - Please choose one

Which of the following can be computed by using the information only from balance sheet?

Equity multiplier

Inventory turnover

Receivable turnover

Return on equity

Question No: 5 (Marks: 1) - Please choose one

Which of the following is CORRECT regarding the present value discount factor?

It is always greater than 1.0

It decreases as the discount rate increases

It is equal to zero when discount rate is zero

It increases as the time period increases

Question No: 6 (Marks: 1) - Please choose one

How much must be deposited at 8% each of the next 20 years to have Rs. 10,296.44?

Rs. 225

Rs. 341

Rs. 410

Rs. 452

Question No: 7 (Marks: 1) - Please choose one

In order to compare different investment opportunities (each with the same risk) with interest rates reported in different manners you should:

Convert each interest rate to an effective annual rate

Convert each interest rate to a monthly nominal rate

Convert each interest rate to an annual nominal rate

Compare the published annual rates

Question No: 8 (Marks: 1) - Please choose one

You have Rs. 1,000 to invest. You have 2 choices; first is the savings account A, which earns 8.75 percent compounded annually and second is the savings account B, which earns 8.50 percent compounded monthly. Which account should you choose and why?

Account A; because it has a higher effective annual rate

Account B; because it has a higher effective annual rate

Account A; because it has the higher quoted rate

Account B; because the quoted rate is higher

Question No: 9 (Marks: 1) - Please choose one

What will be the value of a Rs. 1,000 face-value bond with an 8% coupon rate at 8% required rate of return?

More than its face value

Less than its face value

Equal to its face value

Cannot be determined without more information

Question No: 10 (Marks: 1) - Please choose one

Which of the following statement is FALSE regarding debt?

Debt is not an ownership interest in the firm.

Unpaid debt can result in bankruptcy or financial failure.

Debt provides the voting rights to the bondholders. pg 78

Corporations payment of interest on debt is fully tax deductible.

Question No: 11 (Marks: 1) - Please choose one

The relationship between real and nominal returns is described by the:

M&M Proposition

Capital Asset Pricing Model

Fisher s Effect

BCG Matrix

Question No: 12 (Marks: 1) - Please choose one

Investors demand a higher yield as compensation to the risk of possible default. This extra premium is called:

Default risk premium

Taxability premium

Interest rate risk premium

Inflation risk premium

Question No: 13 (Marks: 1) - Please choose one

For which type of stocks, the dividends grow at a constant rate?

Zero Growth Stocks pg 91

Constant Growth Stocks

Non-Constant Growth Stocks

None of the given options

Question No: 14 (Marks: 1) - Please choose one

In which type of voting, each shareholder is entitled one vote per share times the number of directors to be elected?

Straight Voting

Statutory Voting

Cumulative Voting

None of the given options

Question No: 15 (Marks: 1) - Please choose one

In which of the following procedure of voting for a company's directors, each shareholder is entitled to one vote per share ?

Straight Voting

Proportional Voting

Cumulative Voting

None of the given options

Question No: 16 (Marks: 1) - Please choose one

Which of the following is the price that the dealer wishes to pay for a share ?

Simple Price

Bid Price

Strike Price pg 100

Complex Price

Question No: 17 (Marks: 1) - Please choose one

Suppose the initial investment for a project is Rs. 160,000 and the cash flows are Rs. 40,000 in the first year and Rs. 90,000 in the second and Rs. 50,000 in the third. The project will have a payback period of:

2.6 Years

3.1 Years

3.6 Years

4.1 Years

Question No: 18 (Marks: 1) - Please choose one

The XYZ Corporation is considering an investment that will cost Rs. 80,000 and have a useful life of 4 years. During the first 2 years, the net incremental after-tax cash flows are Rs. 25,000 per year and for the last two years they are Rs. 20,000 per year. What is the payback period for this investment ?

3.2 Years

3.5 Years

4.0 Years

Cannot be determined from the given information

Question No: 19 (Marks: 1) - Please choose one

Which of the following measures the present value of an investment per dollar invested ?

Net Present Value (NPV)

Average Accounting Return (AAR)

Internal Rate of Return (IRR)

**Profitability Index (PI) pg
119**

Question No: 20 (Marks: 1) - Please choose one

Which of the following set of cash flows should be considered in the decision at hand?

Relevant Cash Flows

Incremental Cash Flows

Negative Cash Flows

All of the given options

Question No: 21 (Marks: 1) - Please choose one

_____ Cost is an outlay that has already occurred and hence is not affected by the decision under consideration.

Sunk

Opportunity

Fixed

Variable

Question No: 22 (Marks: 1) - Please choose one

The overall (weighted average) cost of capital is composed of a weighted average of:

The cost of common equity and the cost of debt

The cost of common equity and the cost of preferred stock
The cost of preferred stock and the cost of debt

The cost of common equity, the cost of preferred stock, and the cost of debt

Question No: 23 (Marks: 1) - Please choose one

Over the past four years, a company has paid dividends of Rs. 1.00, Rs. 1.10, Rs. 1.20 and Rs. 1.30 respectively. This pattern is expected to continue into the future. This is an example of a company pay a dividend that grows:

By 10 percent each year

At a constant rate

By a decreasing amount

At a decreasing rate

Question No: 24 (Marks: 1) - Please choose one

Which of the following statement is INCORRECT regarding Average Accounting Return?

AAR is a rate that makes the NPV equal to zero

AAR is a measure of accounting profit relative to book value

An investment is acceptable if its AAR is greater than a benchmark AAR

None of the given options
wrong questions

Question No: 25 (Marks: 1) - Please choose one

Which of the following M&M propositions states that it is completely irrelevant how a firm chooses to arrange its finances ?

1st proposition

2nd proposition

3rd proposition

None of the given options

Question No: 26 (Marks: 1) - Please choose one

SNT Corporation has a WACC of 16% (ignoring taxes). It can borrow at 9% . Assuming that SNT has a target capital structure of 75% equity and 25% debt, what will be its cost of equity ?

13.00%

15.23%

18.33%

20.98%

$$25\%/75\% = 0.33$$

$$16\% + (16\% - 9\%) \times 0.33$$

$$0.16 + (0.16 - 0.09) \times 0.33$$

$$0.16 + 0.0231 = 18.31\%$$

Question No: 27 (Marks: 1) - Please choose one

Which of the following activities decreases cash ?

Increasing current liabilities

Decreasing long term debt

Decreasing fixed assets

Increasing equity

Activities that decrease cash (uses of cash)

- Decreasing long term debt
- Decreasing equity
- Decreasing current liabilities
- Increasing current assets other than cash
 - Increasing fixed assets

Question No: 28 (Marks: 1) - Please choose one

Which of the following describes how a product moves through the current asset accounts ?

Cash Cycle

Operating Cycle

Current Cycle

None of the given options

An operating cycle describes how a product moves through the current asset accounts

- It begins life as inventory
- Converted to a receivable when it is sold
 - Converted to cash when we collect from the sale

Question No: 29 (Marks: 1) - Please choose one

Which of the following is the time between sale of inventory and collection of receivables ?

Inventory period

Accounts receivable period pg 164

Collection period

Accounts payable period

Question No: 30 (Marks: 1) - Please choose one

Suppose you have Rs. 10,000 on deposit. One day, you write a cheque for Rs. 2,000 and deposit Rs. 4,000. What is your disbursement float ?

Rs. 4,000

+ Rs. 2,000

Rs. 2,000

+ Rs. 4,000

Question No: 31 (Marks: 1) - Please choose one

Suppose you have Rs. 70 in stock A and Rs. 120 in another stock B in your portfolio. Stock A has an expected return of 25% and stock B has an expected return of 20%. What will be the portfolio expected return ?

18.27%

21.84%

22.50%

25.13%

Question No: 32 (Marks: 1) - Please choose one

Which of the following statement(s) is (are) true regarding Return on Investment?

One of the responsibilities of the financial manager is to assess the value of the proposed investment

The return consists of income earned and capital gain

The dollar returns are the sum of the cash received and the change in dollar value of the asset

All of the given options

Question No: 33 (Marks: 1) - Please choose one

The MC Inc. purchased a share of common stock exactly one year ago for Rs. 45. During the past year the common stock paid an annual dividend of Rs. 2.40. The firm sold the stock today for Rs. 80. What is the rate of return the firm has earned?

5.3%

194.2%

83.11%

94.2%

Question No: 34 (Marks: 1) - Please choose one

What will be the cash inflow if we have sales of Rs. 400,000 and accounts receivable are increased by Rs. 70,000?

Rs. 70,000

Rs. 230,000

Rs. 330,000

Rs. 470,000

Question No: 35 (Marks: 1) - Please choose one

What will be the cash inflow if we have sales of Rs. 300,000 and accounts receivable are decreased by Rs. 70,000?

Rs. 70,000

RS 230000

Rs. 370,000
correct

Rs. 470,000
300000-
70000=230000

Question No: 36 (Marks: 1) - Please choose one

Suppose a firm borrows Rs. 800,000 at 7%. What will be the total interest bill per year if tax rate is 34% ?

Rs. 19,040

Rs. 36,960

Rs. 56,000

Rs. 800,000

$800000 \times 7\% = 56000$

$56000 \times 34\% = 19040$

Question No: 37 (Marks: 1) - Please choose one

Which one of the following motives refers to the need for holding cash as a safety margin to act as a financial reserve?

Speculative motive

Transaction motive

Precautionary motive

Personal motive

• **Precautionary**

Motive - the need to hold cash as a safety margin to act as a financial reserve

Question No: 38 (Marks: 1) - Please choose one

Suppose market value exceeds book value by Rs. 225,000. What will be the aftertax proceeds if there is a tax rate of 34 percent?

Rs. 105,600

Rs. 148,500

Rs. 191,000

Rs. 225,000

$$225000 \times 34\% = 76500$$

$$225000 - 76500 = 148500$$

Question No: 39

(Marks: 1) - Please choose one

Suppose you have bought 100 shares of a corporation one year ago at Rs. 18 per share. Over the last year, you have received a dividend of Rs. 2 per share. At the end of the year, the stock sells for Rs. 27. As per given information, what will be the capital gains yield?

15
%

25
%

35
%

50
%

$$(27-18)/18=0.5\%$$

Academia
Coaches

Question No: 40 (Marks: 1) - Please choose one

SN T Com pany p u rchased a vehicle for Rs. 450,000. Based on historical averages, this vehicle is w orth 25% of the p u rchase price now and it is being sold at this p rice. What is the vehicle s m arket valu e ?

Rs. 14,875

Rs. 112,500

Rs. 337,500

Rs. 230,000

Question No: 41 (Marks: 1) - Please choose one

Standard deviations for Investment A and Investment B are 19% and 28% respectively. This indicates that:

Investment A is more volatile than Investment B

Investment A is equally volatile to Investment B

Investment B is less volatile than Investment A

Investment B is more volatile than Investment A

Question No: 42 (Marks: 1) - Please choose one

Which of the following statement is INCORRECT regarding financial leverage ?

Financial leverage can dramatically alter the payoffs to the shareholders.

Financial leverage refers to the extent to which a firm relies on the debt.

Financial leverage must affect the overall cost of capital in any condition.

Financial leverage may not affect the overall cost of capital.

Question No: 43 (Marks: 3)

What is the difference between dealer and broker ?

Question No: 44 (Marks: 3)

What does Static Theory of Capital Structure state?

Question No: 45 (Marks: 3)

Suppose there is an expected rate of 20%. What will be the risk premium if risk free rate is (i) 8% and (ii) 12% ?

Question No: 46 (Marks: 5)

What is the difference between Leverage and Un -levering?

Question No: 47 (Marks: 5)

Match the capital budgeting techniques are given in Column A to the criteria in Column B. Provide the correct answer in Column C.

Column A

Net Present Value
Average Accounting Return
Payback Period
Internal Rate of Return

Column B

Discounted Cash Flow Criteria
Payback Criteria
Discounted Cash Flow Criteria
Accounting Criteria

Column C

Question No: 48 (Marks: 10)

Each of the following mutually exclusive investment projects involves an initial outlay of Rs. 240,000. The company's required rate of return is 11 percent. The estimated net cash flows for the projects are as follows:

Year	Cash flow rs	
	Project A	Project B
1	140000	20000
2	80000	40000
3	60000	60000
4	20000	100000
5	20000	180000

Calculate the NPV and PI for both projects. If both projects are mutually exclusive then which project should be chosen and why?

Question No: 49 (Marks: 10)

Consider the following chronological events:

Day	Activity	Cash effect
0	Acquire inventory on credit	None
35	Pay for inventory	Rs 5000
70	Sell inventory on credit	None
110	Collect on sale	+Rs 6000

From the given information, find out:

- (i) inventory period
- (ii) Accounts receivable period
- (iii) Accounts payable period
- (iv) Operating cycle
- (v) Cash cycle

The next dividend for a company is Rs. 6 per share. The stock current price is Rs. 57 per share. What will be the cost of capital if the dividends are estimated to grow steadily at 5% ?

Select correct option:

12.88%

13.07%

14.22%

15.53%

$$D1 = D0 \times (1 + g)$$

$$RE = D1 / P0 + g$$

$$6 \times (1 + 0.05) = 6.3$$

$$6.3 / 57 + 0.05 = 16\%$$

Which of the following is the time period between the acquisition of inventory and the collection of cash from receivables

Select correct option

Operating Cycle pg 164

Cash Cycle

Current Cycle

None of the given options

Question # 2 of 15 (Start time: 04:07:41 PM) Total Marks: 1

Which of the following is the time between receipt of inventory and payment for it ? Select correct option:

Operating Cycle

Cash Cycle

Current Cycle

None of the given options

Question # 6 of 15 (Start time: 04:10:23 PM) Total Marks: 1

Business risk depends on which of the following risk of the firm's assets ? Select correct option:

Systematic Risk pg 155

Diversifiable Risk

Unsystematic Risk

None of the given options

Question # 8 of 15 (Start time: 04:11:30 PM) Total Marks: 1

What will be the affect of capital structure on the value of the firm and WACC when there are no taxes and bankruptcy costs ?

Select correct option:

Value of the firm increases and WACC decreases

Value of the firm decreases and WACC increases

Value of the firm and WACC both are not affected pg 158

Capital structure have to do nothing with value of the firm and WACC

Question # 13 of 15 (Start time: 04:14:19 PM) Total Marks: 1

Sources of cash always involve _____ a liability (or equity) account or _____ an asset account.

Select correct option:

increasing; decreasing pg 163

decreasing; increasing

increasing; increasing

decreasing; decreasing

Question # 14 of 15 (Start time: 03:41:38 PM) Total Marks: 1

Which of the following refers to the use of borrowed money to increase the return on equity of an investment purchase ?

Select correct option:

Financial Leverage

Operating Leverage

Structural Leverage

None of the given options

Question # 1 of 15 (Start time: 02:20:49 PM) Total Marks: 1

The value of the firm's cash flows (or the value of the firm) is _____ when the WACC is _____.

Select correct option:

minimized; minimized

maximized; maximized

maximized; minimized pg 149

None of the given options

Question # 5 of 15 (Start time: 02:22:43 PM) Total Marks: 1

A firm's equity is worth 4 million and its debt is worth 2 million. What is the percentage of firm's financing that is debt ?

Select correct option:

20%

33%

40%

67%

Ref:

$4+2=6$

$4/6=0.66$

$0.66*100=66.67$ is equity and

$100-67=33$ is debt

Question # 7 of 15 (Start time: 02:24:51 PM) Total Marks: 1

Which of the following risk is associated with the unique circumstances of a particular company ?

Select correct option:

Financial Risk

Business Risk

Functional Risk

None of the given options

Question # 10 of 15 (Start time: 02:27:15 PM) Total Marks: 1

According to 2nd M&M proposition, cost of equity does NOT depend upon which of the following ?

Select correct option:

The required return of firm's assets

The firm's cost of debt

The firm's stockholders pg 153

The firm's debt-equity ratio

Question # 13 of 15 (Start time: 02:29:40 PM) Total Marks: 1

Which of the following is the difference between the current assets and the current liabilities ?

Select correct option:

Net difference

Net working capital

Current ratio

Net available capital

Question # 1 of 15 (Start time: 02:38:01 PM) Total Marks: 1

Operating cycle = _____

Select correct option:

Collection period - accounts payable period

Inventory period - accounts receivable period

Inventory period + accounts receivable period pg 164

Inventory period + account payable period

Question # 2 of 15 (Start time: 02:39:24 PM) Total Marks: 1 A firm's capital structure may include which of the following ? Select correct option:

Common stocks

Preferred Stocks not sure

Bonds

All of the given options

Question # 14 of 15 (Start time: 02:46:33 PM) Total Marks: 1

Mr. Nadeem has bought 100 shares of a corporation one year ago at Rs. 22 per share.

Over the last year, he received a dividend of Rs. 2.50 per share. At the end of the year, the stock sells for Rs. 28. As per given information, what will be the capital gains yield ? Select correct option:

15.85%

25.10%

27.27%

45.00%

Capital gain yield formula

$(28-22)/22$

$=0.2727$

Question # 15 of 15 (Start time: 02:48:05 PM) Total Marks: 1

Which of the following term refers to the situation when investors loan out the money ? Select correct option:

Leverage

Levering

Un-levering pg 152

Loaning

Question # 1 of 15 (Start time: 11:23:11 AM) Total Marks: 1

Which of the following activities does not increase cash ? Select correct option:

Increasing current liabilities

Increasing equity

Increasing current assets other than cash pg 163

Decreasing fixed assets

Question # 3 of 15 (Start time: 11:25:12 AM) Total Marks: 1

The increase in debt financing raises the required return on equity because the risk born by the investors increases which is called:

Select correct option:

Financial Risk pg 155

Business Risk

Functional Risk

None of the given options

Question # 5 of 15 (Start time: 11:27:05 AM) Total Marks: 1 What will happen to cash cycle if payable period is lengthened ? Select correct option:

Cash cycle increases

Cash cycle decreases 167

Cash cycle remain unaffected

Cash cycle has to do nothing with payable period

Question # 6 of 15 (Start time: 11:28:03 AM) Total Marks: 1

Which of the following M&M propositions states that it is completely irrelevant how a firm chooses to arrange its finances ?

Select correct option:

1st proposition pg 153

2nd proposition

3rd proposition

None of the given options

Question # 7 of 15 (Start time: 11:29:12 AM) Total Marks: 1

The total market value of a company's stocks is calculated as Rs. 250 million and the total market value of the company's debt are calculated as Rs. 150 million. What percent of the firm's financing is equity ?

Select correct option:

33.33%

50.00%

62.50%

85.00%

$$=250+150=400$$

$$250/400=62.5 \text{ equity and remaining } 37.5 \text{ is debt}$$

Question # 8 of 15 (Start time: 11:30:35 AM) Total Marks: 1

Which of the following is referred as the ratio of the standard deviation of a distribution to the mean of that distribution ?

Select correct option:
Probability distribution
The expected return
The standard deviation
Coefficient of variation

Question # 10 of 15 (Start time: 11:32:28 AM) Total Marks: 1

Cash cycle = _____

Select correct option:

Inventory period - accounts receivable period

Inventory period + accounts receivable period

Inventory period + account payable period

Operating cycle - accounts payable period pg 165

Question # 12 of 15 (Start time: 11:33:22 AM) Total Marks: 1

According to which of the following theory, the firm's capital structure is determined by a trade-off of the value of tax shields against the costs of bankruptcy.

Select correct option:

M&M Proposition

Modern theory of bankruptcy costs

Static theory of capital structure not sure

Dividend growth theory

Question # 13 of 15 (Start time: 11:34:55 AM) Total Marks: 1

The cost of common equity for a firm is:

Select correct option:

The required rate of return on the company's stock

The yield to maturity on the bond

The risk-free rate

The market risk premium

Question # 14 of 15 (Start time: 11:36:17 AM) Total Marks: 1

Standard deviations for Investment A and Investment B are 25% and 12% respectively. This indicates that :

Select correct option:

Investment A is less volatile than Investment B

Investment B is equally volatile to Investment A

Investment A is more volatile than Investment B

Investment B is more volatile than Investment A

Question # 1 of 15 (Start time: 11:42:21 AM) Total Marks: 1

Which of the following is the time between receipt of inventory and payment for it ?

Select correct option:

Operating Cycle

Cash Cycle
Current Cycle

None of the given options pg 165

Question # 4 of 15 (Start time: 11:47:38 AM) Total Marks: 1

Which of the following is the overall return the firm must earn on its existing assets to maintain the value of the stock?

Select correct option:

IRR (Internal Rate of Return)

MIRR (Modified Internal Rate of Return)

WACC (Weighted Average Cost of Capital) 146

AAR (Average Accounting Return)

Question # 5 of 15 (Start time: 11:49:02 AM) Total Marks: 1

What will happen to cash cycle if inventory and receivable periods get longer ?

Select correct option:

Cash cycle increases pg 167

Cash cycle decreases

Cash cycle remain unaffected

Cash cycle has to do nothing with inventory and receivable periods

Standard deviations for Investment A and Investment B are 15% and 32% respectively. This indicates that :

Select correct option:

Investment A is more volatile than Investment B

Investment A is equally volatile to Investment B

Investment B is less volatile than Investment A

Investment B is more volatile than Investment A

Question # 9 of 15 (Start time: 11:52:21 AM) Total Marks: 1

Which of the following term refers to the use of personal borrowing to alter the degree of financial leverage ?

Select correct option:

Un-levering

Homemade leverage pg 151

Levering

Loaning

Question # 10 of 15 (Start time: 11:53:13 AM) Total Marks: 1

Which of the following is the return that firm's creditors demand on new borrowings ? Select correct option:

Cost of debt pg 143

Cost of preferred stock
Cost of common equity
Cost of retained earnings

Question # 13 of 15 (Start time: 11:55:21 AM) Total Marks: 1

A firm's equity is worth 4 million and its debt is worth 2 million. What is the percentage of firm's financing that is equity ?

Select correct option:

20%
33%
40%
67%

$$4+2=6$$

$$4/6=0.67$$

Question # 14 of 15 (Start time: 11:56:50 AM) Total Marks: 1

Under what situation, we can safely say that one capital structure is better than the other ? Select correct option:

If it results in a higher weighted average cost of capital

If it results in a lower weighted average cost of capital pg 149

If it results in a lower value of the firm

Capital structure has to do nothing with weighted average cost of capital



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Question # 5 of 15 (Start time: 10:55:09 PM)

Total Marks: 1

Suppose market value exceeds book value by Rs. 200,000. What will be the after-tax proceeds if

there is a tax rate of 35 percent ?

Select correct option:

Rs. 97,500

Rs. 105,600

Rs. 130,000

Rs. 150,000

$$200000 \times 35\% = 70000$$

$$200000 - 70000 = 130000$$

Question # 9 of 15 (Start time: 02:23:24 PM) Total Marks: 1

In which type of projects, the unequal lives of the projects do affect the analysis ? Select correct option:

Mutually exclusive

Dependent

Independent

Correlated

Mr. Naveed has bought 100 shares of a corporation one year ago at Rs. 23 per share. Over the last year, he received a dividend of Rs. 1.50 per share. At the end of the year, the stock sells for Rs. 31. As per given information, what will be his total percentage return ?

Select correct option:

10.63%

20.20%

35.12%

41.30%

First find dividend yield then capital gain yield then plus both answer

Let see

$$\text{Dividend yield} = 1.50/23 = 0.06521\%$$

$$\text{Capital gain yield} = (31-23)/23 = 0.3478\%$$

$$\text{Total percentage return} = 0.06521 + 0.3478 \times 100 = 41.30$$

The book value of a system is Rs. 35,500 at the end of year 4 of its life. What will be the total after-tax cash flow from sale if we sell this system for Rs. 20,000 at this time? (Tax rate is 35%)

Select correct option:

Rs. 15,000

Rs. 15,220

Rs. 20,327

Rs. 25,425

Which one of the following statement is INCORRECT regarding MACRS depreciation ?

Select correct option:

Every asset is assigned to a particular class which establishes asset's life for tax purposes. Depreciation is computed for each year by multiplying the cost of the asset by a fixed percentage.

Annual depreciation remains constant every year even by using different rates.

The expected salvage value and the actual expected economic life are not explicitly considered in calculation of depreciation.

Total portfolio risk is equal to :

Select correct option:

systematic risk plus non-diversifiable risk

unsystematic risk plus diversifiable risk

systematic risk plus market risk

systematic risk plus diversifiable risk

Mr. Nadeem has bought 100 shares of a corporation one year ago at Rs. 22 per share.

Over the last year, he received a dividend of Rs. 2.50 per share. As per given information what will be the dividend yield ?

Select correct option:

9.92%

11.36%

21.12%

40.00%

d.y= 2.50/22=0.1136%

Question # 1 of 15 (Start time: 09:05:41 PM) Total Marks: 1

Which of the following type of risk can be eliminated by diversification ?

Select correct option:

Systematic Risk

Market Risk

Unsystematic Risk

None of the given options

Which of the following is the return that firm's creditors demand on new borrowings ? Select correct option:

Cost of debt

Cost of preferred stock

Cost of common equity

Cost of retained earnings

None of the given options

What will be the risk premium for a stock that has an expected return rate of 14% and a risk-free rate of 5% ?

Select correct option:

6 %

9 %

15 %

24%

14-5=9

Which of the following is NOT an example of systematic risk ?

Select correct option:

Interest Rate

Inflation

Strike call in a company

Gross Domestic Product

Your gain (or loss) on an investment that you buy is called your : Select correct option:

Risk on investment

Return on investment

Gain on investment

loss on investment

Standard Company purchased a vehicle for Rs. 450,000. Based on historical averages, this vehicle is worth 25% of the purchase price now and it is being sold at this price. What is the vehicle's market value ?

Select correct option:

Rs. 14,875
Rs. 112,500
Rs. 337,500
Rs. 230,000

Question # 3 of 15 (Start time: 05:24:09 PM) Total Marks: 1

ABC Corporation has two shareholders; Mr. Aamir with 50 shares and Mr. Imran with 70 shares. Both want to be elected as one of the four directors but Mr. Imran doesn't want Mr. Aamir to be director. How much votes would Mr. Aamir be able to cast as per cumulative voting procedure?

Select correct option:

70
120
200
280

4*50=200

Question # 4 of 15 (Start time: 05:25:30 PM) Total Marks: 1

In MACRS property classes, 7-year class includes which of the following ?

Select correct option:

Equipment used in research
Autos & computers

Most industrial equipment

All of the given options

Question # 5 of 15 (Start time: 05:26:42 PM) Total Marks: 1

Standard deviations for Investment A and Investment B are 15% and 32% respectively.

This indicates that :

Select correct option:

Investment A is more volatile than Investment B
Investment A is equally volatile to Investment B
Investment B is less volatile than Investment A

Investment B is more volatile than Investment A

Question # 6 of 15 (Start time: 05:27:45 PM) Total Marks: 1

Systematic Risk is also known as :

Select correct option:

Diversifiable Risk

Market Risk

Residual Risk

Asset-specific Risk

Question # 7 of 15 (Start time: 05:28:20 PM) Total Marks: 1

A project has an initial investment of Rs. 600,000. What would be the NPV for the project if it has a profitability index of 1.12?

Select correct option:

Rs. 40,000

Rs. 55,000

Rs. 65,000

Rs. 72,000

$$600000 \times 1.12 = 672000$$

$$672000 - 600000 = 72000$$

Question # 8 of 15 (Start time: 05:29:04 PM) Total Marks: 1

Unsystematic Risk is also known as :

Select correct option:

Diversifiable Risk

Market Risk

Non-diversifiable Risk

Question # 9 of 15 (Start time: 05:29:57 PM) Total Marks: 1

Which of the following is NOT included in discounted cash flow criteria for capital budgeting decision?

Select correct option:

Payback Period

Net Present Value

Profitability Index

Internal Rate of Return

Question # 10 of 15 (Start time: 05:30:21 PM) Total Marks: 1

Which of the following is NOT a quality of IRR?

Select correct option:

Most widely used

Ideal to rank the mutually exclusive investments

Easily communicated and understood

Can be estimated even without knowing the discount rate

Question # 11 of 15 (Start time: 05:30:58 PM) Total Marks: 1

Which of the following is known as the group of assets such as stocks and bonds held by an investor ?

Select correct option:

Stock Bundle

Portfolio

Capital Structure

None of the given options

Question # 12 of 15 (Start time: 05:31:49 PM) Total Marks: 1

Which of the following set of cash flows represent the change in the firm's total cash flow that occurs as direct result of accepting the project ?

Select correct option:

Relevant Cash Flows

Incremental Cash Flows

Negative Cash Flows

All of the given options

Question # 14 of 15 (Start time: 05:32:39 PM) Total Marks: 1

What would be the standard deviation of returns for an investment that has a variance of 0.0075 ?

Select correct option:

0.08660

0.09101

0.09487

0.10521

Question # 15 of 15 (Start time: 05:33:12 PM) Total Marks: 1

Investors demand a higher yield as compensation to the risk of possible default. This extra premium is called:

Select correct option:

Interest rate risk premium

Inflation risk premium

Default risk premium

Taxability premium

Question # 1 of 15 (Start time: 03:08:45 PM) Total Marks: 1

What will be the cash inflow if we have sales of Rs. 400,000 and accounts receivable are decreased by Rs. 70,000 ?

Select correct option:

Rs. 70,000

Rs. 230,000

Rs. 330,000 not sure

Rs. 470,000

Question # 4 of 15 (Start time: 03:11:23 PM) Total Marks: 1

The relationship between real and nominal returns is described by the:

Select correct option:

M&M Proposition

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Capital Asset Pricing Model

Fisher's Effect

BCG Matrix

Question # 5 of 15 (Start time: 03:12:03 PM) Total Marks: 1

Which of the following set of cash flows should be considered in the decision at hand? Select correct option:

Relevant Cash Flows

Incremental Cash Flows

Negative Cash Flows

All of the given options

Question # 6 of 15 (Start time: 03:13:39 PM) Total Marks: 1

What will be the real rate if the nominal rate is 14% and the inflation rate is 6%? Select correct option:

6.02%

7.55%

10.0%

14.3%

$(1+r)/(1+h)$

$1.14/1.06=1.07$

$1.07*100=107.55$

$107.55-100=7.55$

Question # 10 of 15 (Start time: 03:16:02 PM) Total Marks: 1

The total market value of a company's stocks is calculated as Rs. 250 million and the total market value of the company's debt is calculated as Rs. 100 million. What percent of the firm's financing is debt ?

Select correct option:

28.57%

50.00%

62.50%

70.00%

$250/350*100-100=28.57$

Question # 13 of 15 (Start time: 03:18:22 PM) Total Marks: 1

Which of the following is referred as a statistical measure of the variability of a distribution around its mean ?

Select correct option:

Probability distribution

The expected return

The standard deviation

Coefficient of variation

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Question # 14 of 15 (Start time: 03:19:51 PM) Total Marks: 1

A set of possible values that a random variable can assume and their associated probabilities of occurrence are referred as :

Select correct option:

Probability distribution

The expected return

The standard deviation

Coefficient of variation

Question # 15 of 15 (Start time: 03:21:16 PM) Total Marks: 1

A project whose acceptance does not prevent or require the acceptance of one or more alternative projects is referred to as a(n):

Select correct option:

mutually exclusive project

independent project

dependent project

contingent project

Question # 1 of 15 (Start time: 02:04:33 PM) Total Marks: 1

Which of the following is the most common capital budgeting technique?

Select correct option:

Payback Period

Net Present Value

Internal Rate of Return

Profitability Index

Question # 2 of 15 (Start time: 02:05:04 PM) Total Marks: 1

While performing the feasibility analysis for a project, an operating cash flow of Rs. 500,000 has been calculated. Net working capital has declined by Rs. 45,000. There was no capital spending during the year. What will be the total cash flow for the project ? Select correct option:

Rs. 200,000

Rs. 315,000

Rs. 455,000

Rs. 545,000

Question # 3 of 15 (Start time: 02:05:57 PM) Total Marks: 1

Which of the following formula is used to calculate the price of a zero growth stock?

Select correct option:

$P_0 = D / R$

$P_0 = D_0 (1+g) / R$

$P_0 = D_0(1+g) / (R - g)$

$$P_0 = D_1 / (R - g)$$

Question # 4 of 15 (Start time: 02:07:26 PM) Total Marks: 1

Which of the following statement is NOT correct regarding cost of preferred shares ?

Select correct option:

Preferred stock has fixed dividend paid every period forever

Fixed dividend paid every period makes preferred stock a perpetuity

Cost of preferred stock can be estimated by using firm's bond ratings

Cost of preferred stock can be estimated by observing the required return on other similarly rated shares of preferred stock

Question # 5 of 15 (Start time: 02:09:00 PM) Total Marks: 1

IRR and NPV rules always lead to identical decisions as long as: Select

correct option:

Cash flows are conventional

Cash flows are independent

Cash flows are both conventional and independent

None of the given options

Question # 6 of 15 (Start time: 02:09:28 PM) Total Marks: 1

_____ paid by corporation is tax deductible but _____ paid are not tax deductible.

Select correct option:

Interest; dividend

Dividend; interest

Bonus; interest

None of the given options

Question # 8 of 15 (Start time: 02:10:43 PM) Total Marks: 1

Which one of the following costs refers to an outlay that has already occurred and hence is not affected by the decision under consideration ?

Select correct option:

Sunk

Opportunity

Fixed

Variable

Question # 10 of 15 (Start time: 02:11:32 PM) Total Marks: 1

Suppose the initial investment for a project is Rs. 16 million and the cash flows are Rs. 4 million in the first year and Rs. 9 million in the second and Rs. 5 million in the third. The project will have a payback period of:

Select correct option:

2.6 Years

3.1 Years

3.7 Years

4.1 Years

Question # 12 of 15 (Start time: 02:12:30 PM) Total Marks: 1

Which of the following statement is TRUE regarding Average Accounting Return?

Select correct option:

AAR is a rate that makes the NPV equal to zero

An investment is acceptable if its AAR is greater than a benchmark AAR An

investment is acceptable if its AAR is less than a benchmark AAR None of the

given options

Question # 13 of 15 (Start time: 02:14:04 PM) Total Marks: 1

Sumi Inc. has just paid a dividend of Rs. 7 per share. The dividend of this company grows at a steady rate of 5% per year. What will be the dividend in 5 years?

Select correct option:

Rs. 4.41

Rs. 6.12

Rs. 7.35

Rs. 8.93

$$5/100=0.05+1=1.05^5=1.2762*7=8.93$$

Question # 15 of 15 (Start time: 02:15:46 PM) Total Marks: 1

An investment should be accepted if the Net Present Value (NPV) is _____ and rejected if it is _____.

Select correct option:

Positive; positive

Positive; negative

Negative; negative

Negative; positive

ACC 501 Quiz Conference lecture

This Mcqs for Final Term

1. Which of the following is an example of positive covenant?

Select correct option:

Maintaining firm's working capital at or above some specified minimum level

Furnishing audited financial statements periodically to the lender

Maintaining any collateral or security in good condition

Restricting selling or leasing assets wrong question option d is negative and all is positive example

Wrong, wrong, wrong question it is unfair discipline

2. AST Company's debt-to-total assets ratio is 0.45. What is its debt -to-equity ratio?

Select correct option:

0.101

0.220

0.667

0.818

Reference: $(1-0.45=0.55)$

$=0.45/0.55=0.818$

3. What amount a borrower would pay at the end of fourth year with a 4-year, 12%, interest-only loan of Rs. 8,000?

Select correct option:

Rs. 1,360

Rs. 2,000

Rs. 5,625

Rs. 8,960

Reference: $8000 \times 12/100 = 8960$

4. What will be the price per share if there is a current dividend of Rs. 4.75, required rate of return of 12% and growth rate of 5%?

Select correct option:

Rs. 30.19

Rs. 43.52

Rs. 56.53

Rs. 71.25

Reference: $D \times (1+g)/(r-g)$

$4.75 \times (1+0.05)/(0.12-0.05) = 71.25$

5. A given rate is quoted as 9 percent APR, but the EAR is 9.38 percent. What is the compounding period?

Select correct option:

Semiannually

Quarterly

Monthly

Daily

Reference: $(1+APR/m)^m - 1$

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APR=9

M=30

$(1+9/30)^{30}-1=9.38$

- 6. Mr. Aslam owns 100 shares of a company and there are four directors to be elected. How much votes Mr. Aslam would have as per cumulative voting procedure?**

Select correct option:

100 votes

200 votes

300 votes

400 votes

Reference: $100 \times 4 = 400$

- 7. SNT Corporation has policy of paying a Rs. 6 per share dividend every year. If this policy is to continue indefinitely, what will be the value of a share of stock at a 15% required rate of return?**

Select correct option:

Rs. 30

Rs. 40

Rs. 50

Rs. 60

Reference: $6/0.15 = 40$

- 8. Which of the following process can be defined as the process of generating earnings from previous earnings?**

Select correct option:

Discounting

Compounding

Factorization

None of the given options

- 9. Which of the following is the amount of cash we would get if we actually sell an asset?**

Select correct option:

Market Value

Book Value

Intrinsic Value

None of the given options

10.

11. Which of the following financial statement shows both dollars and percentages in the report?

Select correct option:

Balance Sheet

Common-Size Statement

Income Statement

Relative Statement of Equity

12. in which form of Business, owners have limited liability.

Select correct option:

sole proprietorship

partnership

joint stock company

none of the above

13. Suppose the initial investment for a project is Rs. 16 million and the cash flows are Rs. 4 million in the first year and Rs. 9 million in the second and Rs. 5 million in the third. The project will have a payback period of:

Select correct option:

2.6 Years

3.1 Years

3.7 Years

4.1 Years

14. Which of the following is NOT a shortcoming of Payback Rule?

Select correct option:

Time value of money is ignored

It fails to consider risk differences

Simple and easy to calculate

None of the given options pg 106

15. When a corporation wishes to borrow from public on a long-term basis, it does so by issuing or selling:

Select correct option:

Debt securities or bonds pg 71

Common Stocks

Preferred Stock

All of the given options

16. Treasury notes and bonds are examples of which of the following types of bonds?

Select correct option:

Government bonds 85

Zero coupon bonds

Floating-rate bonds

Euro bonds

17. When real rate is _____, all interest rates will tend to be _____.

Select correct option:

Low; higher

High; lower

High; higher pg 88

None of the given options

18. Which of the following statements is(are) CORRECT regarding a bond?

Select correct option:

A bond is an evidence of debt issued by a corporation or a governmental body. A bond represents a loan made by investors to the issuer.

When a corporation wishes to borrow from public on a long term basis, it does so by issuing or selling bonds.

All of the given options

19. Between the two identical bonds having different coupon, the price of the _____ bond will change less than that of _____ bond.

Select correct option:

Higher-coupon; lower-coupon

Lower-coupon; higher-coupon

Long-term; short-term

None of the given options

20. **As the dividend is always same for a zero growth stock, so the stock can also be viewed as:**

Select correct option:

Ordinary Annuity

Annuity Due

Ordinary perpetuity pg 91

None of the given options

21. **The coupon rate of a floating-rate bond is capped and upper and lower rates are called:**

Select correct option:

Float

Collar pg 86

Limit

Surplus

22. **Internal Rate of Return (IRR) is sometimes referred to as:**

Select correct option:

Simple Interest Rate

Compound Interest Rate

Economic Rate of Return

Required Rate of Return

23. **If the dividend for a share is growing at a steady rate then which of the following formula(s) can be used to find the dividend in two periods?**

Select correct option:

$$D_2 = D_1 \times (1 + g)$$

$$D_2 = D_0 \times (1 + g)^2$$

$$D_2 = D_0 \times (1 + g)^2$$

All of the given options pg 92

24. A project whose acceptance does not prevent or require the acceptance of one or more alternative projects is referred to as a(n):

Select correct option:

mutually exclusive project

independent project

dependent project

contingent project

25. A project has an initial investment of Rs. 600,000. What would be the NPV for the project if it has a profitability index of 1.12?

Select correct option:

Rs. 40,000

Rs. 55,000

Rs. 65,000

Rs. 72,000

Reference=600000*1.12=672000-600000=72000

26. Which of the following statement is TRUE regarding debt?

Select correct option:

Debt is an ownership interest in the firm.

Unpaid debt can result in bankruptcy or financial failure. Pg 78

Debt provides the voting rights to the bondholders.

Corporation's payment of interest on debt is fully taxable.

27. If a firm is allowed to miss a coupon payment on a bond in a year in which it reports an operating loss, the bond is most likely a(n) _____ bond.

Select correct option:

Income

Zero coupon

Floating-rate

Put

28. A _____ covenant limits or prohibits actions that company might take.

Select correct option:

Positive

Negative pg 80

Neutral

None of the given options

29. IRR and NPV rules always lead to identical decisions as long as:

Select correct option:

Cash flow s are conventional

Cash flow s are independent

Cash flow s are both conventional and independent pg 110

None of the given options

30. Which of the following allows a company to repurchase part or all of the bond issue at a stated price?

Select correct option:

Repayment

Seniority

Call provision

Protective covenants

31. Which of the following is NOT a quality of IRR?

Select correct option:

Most widely used

Ideal to rank the mutually exclusive investments pg 116

Easily communicated and understood

Can be estimated even without knowing the discount rate

32. In which type of the market, previously issued securities are traded among investors?

Select correct option:

Primary Market

Secondary Market pg 100

Tertiary Market

None of the given options

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33. A model which makes an assumption about the future growth of dividends is known as:

Select correct option:

Dividend Price Model

Dividend Growth Model

Dividend Policy Model

All of the given options

34. Which of the following represents the linear relation between Net Present Value (NPV) and Profitability Index (PI)?

Select correct option:

If Profitability Index > 1 , NPV is Negative (-)

If Profitability Index < 1 , NPV is Positive (+)

If Profitability Index > 1 , NPV is Positive (+)

If Profitability Index > 1 , NPV is Zero (0)

35. Which of the following comes under the head of discounted cash flow criteria for capital budgeting decisions?

Select correct option:

Payback Period

Net Present Value pg 118

Average Accounting Return

36.

Which of the following is NOT included in discounted cash flow criteria for capital budgeting decision?

Select correct option:

Payback Period pg 119

Net Present Value

Profitability Index

Internal Rate of Return

37. Which of the following is an example of positive covenant?

Select correct option:

Maintaining any collateral or security in good condition

Limiting the amount of dividend according to some formula

Restricting pledging assets to other lenders

Barring merger with another firm

38. Which of the following is the most common capital budgeting technique?

Select correct option:

Payback Period

Net Present Value

Internal Rate of Return

Profitability Index

- 39. Which of the following measures the present value of an investment per dollar invested?**

Select correct option:

Net Present Value (NPV)

Average Accounting Return (AAR)

Internal Rate of Return (IRR)

Profitability Index (PI) pg 119

- 40. Which of the following is a measure of accounting profit relative to the book value?**

Select correct option:

Net Present Value

Profitability Index

Internal Rate of Return

Average Accounting Return pg 119

- 41. Which one of the following typically applies to preferred stock but not to common stock?**

Select correct option:

Dividend yield

Cumulative dividends

Voting rights

Tax deductible dividends

- 42. Treasury notes and bonds are examples of which of the following types of bonds?**

Select correct option:

Government bonds pg 86

Zero coupon bonds

Floating-rate bonds

Euro bonds

- 43. Expectation of a ____ inflation rate will push long term interest rates ____ than short term rates reflected by an upward term structure.**

Select correct option:

Lower; higher

Higher; lower

Higher; higher pg 88

None of the given options

44. A company issues bonds with a Rs. 1,000 face value. What is the coupon rate if the coupon payments of Rs. 60 are paid every 6 months?

Select correct option:

3 percent

6 percent

9 percent

12 percent

$$60 \times 2 = 120 / 1000 = 12\%$$

45. The projected cash flows from a project are: Year 1: Rs. 100 Year 2: Rs. 300 Year 3: Rs. 400 Year 4: Rs. 800 The Project cost is Rs. 800. What would be the payback period for the project?

Select correct option:

2.00 Years

2.67 Years

3.00 Years

3.67 Years

Project=800 paid in 1 year=100, 2nd year=300 and 3rd year=400 total 800 paid in 3rd year

In which of the following type of annuity, cash flows occur at the beginning of each period?

Select correct option:

Ordinary annuity

Annuity due pg 66

Perpetuity

None of the given options

46. Which of the following is NOT an important feature of treasury notes and bonds?

Select correct option:

Default free

Taxable

Least liquid pg 90

Highly liquid

Which of the following is NOT a determinant of term structure?

Select correct option:

Real rate of interest

Internal rate of interest pg 88

Expected inflation

Interest rate risk

47. Which of the following is the amount of time required for an investment to generate cash flows sufficient to recover its initial cost?

Select correct option:

Yield to maturity

Maturity Period

Payback period pg 104

Accounts Receivable period

m.q .z

48. In which type of the market, securities are originally sold to the investors?

Select correct option:

Primary Market

Secondary Market

Tertiary Market

None of the given options

49. A _____ is an agent who arranges security transactions among investors.

Select correct option:

Broker pg 100

Dealer

Member

Specialist

volatile

50. Which of the following is a characteristic of preferred stock?

Select correct option:

These stocks have not stated liquidating value

Dividends on these stocks can be cumulative pg 100

These bonds hold credit ratings quite different from bonds

These stocks have not any kind of priority over common stocks

51. Which of the following type of bond pays no coupon at all and are offered at a price that is much lower than its stated value?

Select correct option:

Government bonds

Zero coupon bonds pg 85

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Floating-rate bonds
Euro bonds

52. An investment will be _____ if the IRR doesn't exceed the required return and _____ otherwise.

Select correct option:

Accepted; rejected
Accepted; accepted
Rejected; rejected

Rejected; accepted pg 109 conceptual

53. Which of the following comes under the head of accounting criteria for capital budgeting decision?

Select correct option:

Payback Period
Net Present Value
Profitability Index

Average Accounting Return pg 119

54. Which of the following is a series of constant cash flows that occur at the end of each period for some fixed number of periods?

Select correct option:

Ordinary annuity pg 63

Annuity due
Perpetuity
None of the given options

55. Which of the following term refers to the difference between the present value of cash inflows and the present value of cash outflows?

Select correct option:

Net Present Value (NPV)

Average Accounting Return (AAR)
Internal Rate of Return (IRR)
Profitability Index (PI)

56. One would be indifferent between taking and not taking the investment when:

Select correct option:

NPV is greater than Zero

NPV is equal to Zero pg 104 doubt ask question in mdb

NPV is less than Zero
All of the given options

57. Which one of the following terms refers to the risk arises for bond owners from fluctuating interest rates?

Select correct option:

Fluctuations Risk
Interest Rate Risk pg75
Real-Time Risk
Inflation Risk

58. All else equal, the market value of a corporate bond is always inversely related to its:

Select correct option:

Time to maturity
Coupon rate
Yield to maturity
All of the given options

59. Which of the following issue is NOT covered by “Investment” area of finance?

Select correct option:

Best mixture of financial investment
International aspects of corporate finance
Associated risks and rewards
Pricing financial assets

60. Period costs include which of the following?

Select correct option:

Selling expense
Raw material

Direct labor
Manufacturing overhead

61. Product costs include which of the following?

Select correct option:

Selling expenses
General expenses
Manufacturing overhead
Administrative expenses

62. Financial policy is evaluated by which of the following?

Select correct option:

Profit Margin
Total Assets Turnover
Debt-equity ratio
None of the given options

63. Cash flow from assets involves which of the following component(s)?

Select correct option:

Operating cash flow
Capital spending
Change in net working capital
All of the given options

64. Which of the following refers to the cash flows that result from the firm's day-to-day activities of producing and selling?

Select correct option:

Operating Cash Flows
Investing Cash Flows
Financing Cash Flows
All of the given options

65. Finance is vital for which of the following business activity (activities)?

Select correct option:

Marketing Research
Product Pricing
Design of marketing and distribution channels
All of the given options

66. Which of the following costs are reported on the income statement as the cost of goods sold?

Select correct option:

Product cost

Period cost

Both product cost and period cost

Neither product cost nor period cost

67. Standard Company had net sales of Rs. 750,000 over the past year. During that time, average receivables were Rs. 150,000. Assuming a 365-day year, what was the average collection period?

Select correct option:

5 days

36 days

48 days

73 days

$$750000/150000=5$$

$$365/5=73\text{days}$$

68. Which of the following terms refers to the use of debt financing?

Select correct option:

Operating Leverage

Financial Leverage

Manufacturing Leverage

None of the given options

69. In which type of market, new securities are traded?

Select correct option:

Primary market

Secondary market

Tertiary market

None of the given options

70. Which of the following ratios are particularly interesting to short-term creditors?

Select correct option:

Liquidity Ratios
Long-term Solvency Ratios
Profitability Ratios
Market Value Ratios

71. **shows the sources from which cash has been generated and how it has been spent during a period of time?**

Select correct option:

Income Statement

Balance Sheet

Cash Flow Statement

Owner's Equity Statement

72. **Standard Corporation sold fully depreciated equipment for Rs. 5,000. This transaction will be reported on the cash flow statement as a(n):**

Select correct option:

Operating activity

Investing activity

Financing activity

None of the given options

73. **me: Quick Ratio is also known as:**

Select correct option:

Current Ratio

Acid-test Ratio

Cash Ratio

74. **of the following statement measures performance over a specific period of time?**

Select correct option:

Income Statement

Balance Sheet

Cash Flow Statement

Retained Earning Statement

75. **Which of the following statement shows assets, liabilities, and net worth as of a specific date?**

Select correct option:

Income Statement

Balance Sheet

Owner's Equity Statement

Cash Flow Statement

76. A portion of profits, which a company retains itself for further expansion, is known as:

Select correct option:

Dividends

Retained Earnings

Capital Gain

None of the given options

77. Which one of the following is NOT a liquidity ratio?

Select correct option:

Current Ratio

Quick Ratio

Cash Coverage Ratio

Cash Ratio

78. Which of the following ratio gives an idea as to how efficient management is at using its assets to generate earnings?

Select correct option:

Profit Margin

Return on Assets

Return on Equity

Total Assets Turnover

79. Which of the following is an example of capital spending?

Select correct option:

Purchase of Fixed Assets

- Decrease in Net Working Capital
- Increase in Net Working Capital
- None of the given options

80. Which of the following is measured by profit margin?

Select correct option:

Operating efficiency

- Asset use efficiency
- Financial policy
- Dividend policy

81. Who of the following make a broader use of accounting information?

Select correct option:

Accountants

Financial Analysts

- Auditors
- Marketers

82. Which of the following set of ratios is used to assess a business's ability to generate earnings as compared to its expenses and other relevant costs incurred during a specific period of time?

Select correct option:

- Liquidity Ratios
- Leverage Ratios
- Profitability Ratios

Market Value Ratios

83. A company having a current ratio of 1 will have _____ net working capital.

Select correct option:

Positive

- Negative
- zero
- None of the given options

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84. which of the following is not a form of business organization

Select correct option:

sole proprietorship
partnership
joint stock company
cooperative Society

85. Which of the following ratios are intended to address the firm's financial leverage?

Select correct option:

Liquidity Ratios
Long-term Solvency Ratios
Asset Management Ratios
Profitability Ratios

86. The accounting definition of income is:

Select correct option:

Income = Current Assets - Current Liabilities
Income = Fixed Assets - Current Assets
Income = Revenues - Current Liabilities
Income = Revenues - Expenses

87. Which of the following item(s) is(are) not included while calculating Operating Cash Flows?

Select correct option:

Depreciation
Interest
Expenses related to firm's financing of its assets
All of the given options

88. Suppose market value exceeds book value by Rs. 250,000. What will be the after-tax proceeds if there is a tax rate of 34 percent ?

Select correct option:

Rs. 105,600

Rs. 148,500

Rs. 165,000

Rs. 225,000

$\text{Solution} = 250000 \times 34\% = 85000$

$250,000 - 85000 = 165000$

89. When a corporation wishes to borrow from public on a long-term basis, it does so by issuing or selling:

Select correct option:

Debt securities or bonds lec 17

Common Stocks

Preferred Stock

All of the given options

90. In which type of market, used securities are traded?

Select correct option:

Primary market

Secondary market

Tertiary market

None of the given options

91. Who of the following make a broader use of accounting information?

Select correct option:

Accountants

Financial Analysts lec 2

Auditors

Marketers

92. Which of the following is (are) a non-cash item(s) ?

Select correct option:

Revenue

Expenses

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Depreciation

All of the given options

93. What will be the coupon value of a Rs. 1,000 face-value bond with a 10% coupon rate?

Select correct option:

Rs. 100

Rs. 510

Rs. 1,000

Rs. 1,100

Solution:

$=1000/10$

$=100$

94. Which of the following comes under the head of discounted cash flow criteria for capital budgeting decisions?

Select correct option:

Payback Period lec 28

Net Present Value

Average Accounting Return

None of the given options

95. Period costs include which of the following?

Select correct option:

Selling expense

Raw material

Direct labor

Manufacturing overhead

96. The value of net working capital will be greater than zero when:

Select correct option:

Current Assets > Current Liabilities

Current Assets < Current Liabilities

Current Assets = Current Liabilities

None of the given options

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97. According to Du Pont Identity, ROE is affected by which of the following?

Select correct option:

Operating efficiency

Asset use efficiency

Financial Leverage

All of the given options

98. Which of the following issue is NOT covered by “Investment” area of finance?

Select correct option:

Best mixture of financial investment

International aspects of corporate finance

Associated risks and rewards

Pricing financial assets

99. Standard Corporation sold fully depreciated equipment for Rs. 5,000. This transaction will be reported on the cash flow statement as a(n):

Select correct option:

Operating activity

Investing activity

Financing activity

None of the given options

100. Balance sheet for a company reports current assets of Rs. 700,000 and current liabilities of Rs. 460,000. What would be the Current Ratio for the company if there is an inventory level of Rs. 120,000?

Select correct option:

1.01

1.26

1.39

1.52

Solution= $700000/460000=1.52$

101. In which type of business, all owners share in gains and losses and all have unlimited liability for all business debts?

Select correct option:

Sole-proprietorship

General Partnership pg 6

Limited Partnership

Corporation

102. **a firm uses cash to purchase inventory, its current ratio will:**
Select correct option:
- Increase
 - Decrease
 - Remain unaffected**
 - Become zero
103. **Which of the following is a special case of annuity, where the stream of cash flows continues forever?**
Select correct option:
- Ordinary Annuity**
 - Special Annuity
 - Annuity Due
 - Perpetuity
104. **Which of the following is an example of positive covenant?**
Select correct option:
- Maintaining any collateral or security in good condition**
 - Limiting the amount of dividend according to some formula
 - Restricting pledging assets to other lenders
 - Barring merger with another firm
105. **Which of the following refers to the difference between the sale price and cost of inventory?**
Select correct option:
- Net loss
 - Net worth**
 - Markup
 - Markdown
106. **Which of the following allows a company to repurchase part or all of the bond issue at a stated price?**
Select correct option:
- Repayment
 - Seniority
 - Call provision**
 - Protective covenants

107. _____ shows the sources from which cash has been generated and how it has been spent during a period of time?

Select correct option:

Income Statement

Balance Sheet

Cash Flow Statement

Owner's Equity Statement

108. Which of the following is a cash flow from financing activity?

Select correct option:

Cash outflow to the government for taxes

Cash outflow to shareholders as dividends

Cash outflow to lenders as interest

Cash outflow to purchase bonds issued by another company

109. Which of the following form of business organization is least regulated?

Select correct option:

Sole-proprietorship

General Partnership

Limited Partnership

Corporation

110. The principal amount of a bond at issue is called:

Select correct option:

Par value

Coupon value

Present value of an annuity

Present value of a lump sum

111. Which of the following relationships holds TRUE if a bond sells at a discount?

Select correct option:

Bond Price < Par Value and YTM > coupon rate

Bond Price > Par Value and YTM > coupon rate

Bond Price > Par Value and YTM < coupon rate

Bond Price < Par Value and YTM < coupon rate

112. When a corporation wishes to borrow from public on a long-term basis, it does so by issuing or selling:

Select correct option:

Debt securities or bonds

Common Stocks
Preferred Stock
All of the given options

113. Which of the following item provides the important function of shielding part of income from taxes?

Select correct option:

Inventory
Supplies
Machinery
Depreciation

114. A firm reports total liabilities of Rs. 300,000 and owner's equity of Rs. 500,000. What would be the total worth of the firm's assets?

Select correct option:

Rs. 300,000
Rs. 500,000
Rs. 800,000
Rs. 1100,000

sol

Asset= liabilities+ capital so 300+500=800,000

115. Which of the following forms of business organizations is created as a distinct legal entity owned by one or more individuals or entities?

Select correct option:

Sole-proprietorship
General Partnership
Limited Partnership
Corporation

116. in which form of Business, owners have limited liability.

Select correct option:

sole proprietorship
partnership
joint stock company
none of the above

117. Which of the following equation is known as Cash Flow (CF) identity?

Select correct option:

CF from Assets = CF to Creditors - CF to Stockholder

CF from Assets = CF to Stockholders - CF to Creditors

CF to Stockholders = CF to Creditors + CF from Assets

CF from Assets = CF to Creditors + CF to Stockholder

118. The difference between current assets and current liabilities is known as:

Select correct option:

Surplus Asset

Short-term Ratio

Working Capital

Current Ratio

119. A borrower is able to pay Rs. 40,000 in 5 years. Given a discount rate of 12 percent, what amount of money the lender should lend?

Select correct option:

Rs. 14,186

Rs. 18,256

Rs. 22,697

Rs. 28,253

solution

$$40000 * 1 / (1 + 0.12)^5 = 22697.07$$

120. Which of the following statement is considered as the accountant's snapshot of firm's accounting value as of a particular date?

Select correct option:

Income Statement

Balance Sheet

Cash Flow Statement

Retained Earning Statement

121. The principal amount of a bond at issue is called:

Select correct option:

Par value

Coupon value

Present value of an annuity

Present value of a lump sum

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122. **Which of the following statement about bond ratings is TRUE?**
Select correct option:
Bond ratings are typically paid for by a company's bondholders.
Bond ratings are based solely on information acquired from sources other than the bond issuer.
Bond ratings represent an independent assessment of the credit-worthiness of bonds.
None of the given options
123. **Which of the following is the acronym for GAAP?**
Select correct option:
Generally Applied Accountability Principles
General Accounting Assessment Principles
Generally Accepted Accounting Principles
General Accepted Assessment Principles
124. **Which of the following is NOT an internal use of financial statements information?**
Select correct option:
Planning for the future through historic information
Evaluation of performance through profit margin and return on equity
Evaluation of credit standing of new customer
None of the given options
125. **A firm has paid out Rs. 150,000 as dividends from its net income of Rs. 250,000. What is the retention ratio for the firm?**
Select correct option:
12 %
25 %
40 %
60 %

Solution

Net income-dividend / net income *100

$$250000-150000/250000*100=40\%$$

A company having a current ratio of 1 will have _____ net working capital. Select correct option:

Positive

Negative

zero

None of the given options

126. **A portion of profits, which a company distributes among its shareholders, is known as:**
Select correct option:

Dividends

Retained Earnings

Capital Gain

None of the given options

127. **Which of the following is(are) the basic area(s) of Finance?**
Select correct option:

Financial institutions

International finance

Investments

All of the given options

128. **Which of the following ratios is NOT from the set of Asset Management Ratios?**
Select correct option:

Inventory Turnover Ratio

Receivable Turnover

Capital Intensity Ratio

Return on Assets

129. **You just won a prize, you can either receive Rs. 1000 today or Rs. 1,050 in one year. Which option do you prefer and why if you can earn 5 percent on your money?**
Select correct option:

Rs. 1,000 because it has the higher future value

Rs. 1,000 because you receive it sooner

Rs. 1,050 because it is more money

Either because both options are of equal value

130. **Which of the following terms refers to the use of debt financing?**
Select correct option:

Operating Leverage

Financial Leverage

Manufacturing Leverage
None of the given options

b

131. **You need Rs. 10,000 to buy a new television. If you have Rs. 6,000 to invest at 5 percent compounded annually, how long will you have to wait to buy the television?**

Select correct option:

8.42 years
10.51 years
15.75 years
18.78 years

$$6000(1+5\%)^{10.51} = \text{around } 10,000$$

132. **Which of the following is an example of positive covenant?**

Select correct option:

Maintaining firm's working capital at or above some specified minimum level

Furnishing audited financial statements periodically to the lender
Maintaining any collateral or security in good condition
Restricting selling or leasing assets

133. **Which of the following is measured by retention ratio?**

Select correct option:

Operating efficiency
Asset use efficiency
Financial policy
Dividend policy

134. **Which of the following statement shows assets, liabilities, and net worth as of a specific date?**

Select correct option:

Income Statement
Balance Sheet
Owner's Equity Statement
Cash Flow Statement

Armaan: b

135. **Product costs include which of the following?**

Select correct option:

Selling expenses

General expenses

Manufacturing overhead

Administrative expenses

136. **An account was opened with an investment of Rs. 3,000 ten years ago. The ending balance in the account is Rs. 4,100. If interest was compounded, how much compounded interest was earned?**

Select correct option:

Rs. 500

Rs. 752

Rs. 1,052

Rs. 1,100

$$4100 - 3000 = 1100$$

137. **What is the effective annual rate of 7 percent compounded monthly?**

Select correct option:

7.00 percent

7.12 percent

7.19 percent

7.23 percent

138. **Which of the following cash flow activities are reported in the Cash Flow Statement and Income Statement?**

Select correct option:

Operating Activities

Investing Activities

Financing Activities

All of the given options

139. **Which of the following term refers to establish of a standard to follow for comparison?**

Select correct option:

Benchmarking 48

Standardizing

Comparison
Evaluation

140. **Which of the following is measured by profit margin?**

Select correct option:

Operating efficiency pg 44

Asset use efficiency
Financial policy
Dividend policy

141. **Rule of 72 for finding the number of periods is fairly applicable to which of the following range of discount rates?**

Select correct option:

2% to 8%
4% to 25%
5% to 20%
10% to 50%

142. **Which of the following refers to a conflict of interest between principal and agent?**

Select correct option:

Management Conflict
Interest Conflict
Agency Problem
None of the given options

143. **Which of the following is a series of constant cash flows that occur at the end of each period for some fixed number of periods?**

Select correct option:

Ordinary annuity 63

Annuity due
Perpetuity
None of the given options

144. **Which of the following area of finance deals with stocks and bonds?**

Select correct option:

Financial institutions

International finance

Investments

All of the given options

145. **7:03 AM Which of the following is NOT an external use of financial statements information?**

Select correct option:

Evaluation of credit standing of new customer

Evaluation of financial worth of supplier

Evaluation of potential strength of the competitor

Evaluation of performance through profit margin and return on equity

146. **Which of the following is(are) the basic area(s) of Finance?**

Select correct option:

Financial institutions

International finance

Investments

All of the given options

147. **If a firm has a ROA of 8 percent, sales of Rs. 100,000, and total assets of Rs. 75,000. What is the profit margin?**

Select correct option:

4.30%

6.00%

10.70%

16.73%

solution

Net income = ROA * total asset

Net income = 8% * 75000 = 6000

Profit margin = net income / sales * 100

Profit margin = 6000 / 100000 * 100 = 6%

148. **Which of the following is the process of planning and managing a firm's long-term investments?**

Select correct option:

Capital Structuring

Capital Rationing

Capital Budgeting

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Working Capital Management

149. Which of the following refers to the cash flows that result from the firm's day-to-day activities of producing and selling?

Select correct option:

Operating Cash Flows

Investing Cash Flows

Financing Cash Flows

All of the given options

150. Quick Ratio is also known as:

Select correct option:

Current Ratio

Acid-test Ratio

Cash Ratio

None of the given options

151. Mr. Y and Mr. Z are planning to share their capital to run a business.

They are going to employ which of the following type of business?

Select correct option:

Sole-proprietorship

Partnership

Corporation

None of the given options

152. If you have Rs. 30 in asset A and Rs. 120 in another asset B, the weights for assets A and B will be __ and __ respectively.

Select correct option:

20%; 80%

37%; 63%

63%; 37%

80%; 20%

153. When corporations borrow, they generally promise to: I. Make regular scheduled interest payments II. Give the right of voting to bondholders III. Repay the original amount borrowed (principal) IV. Give an ownership interest in the firm

Select correct option:

I and II

I and III

II and IV
I, III, and IV

154. Which of the following is NOT included in a bond indenture?

Select correct option:

The basic terms of bond issue

The total amount of bonds issued

A personal profile of the issuer

A description of the security

155. What would be the present value of Rs. 10,000 to be received after 6 years at a discount rate of 8 percent?

Select correct option:

Rs. 6,302

Rs. 9,981

Rs. 14,800

Rs. 15,869

156. Which of the following statement is TRUE regarding debt?

Select correct option:

Debt is an ownership interest in the firm.

Unpaid debt can result in bankruptcy or financial failure.

Debt provides the voting rights to the bondholders.

Corporation's payment of interest on debt is fully taxable.

157. The preferred stock of a company currently sells for Rs. 25 per share.

The annual dividend of Rs. 2.50 is fixed. Assuming a constant dividend forever, what is the rate of return on this stock?

Select correct option:

5.00 percent

7.00 percent

8.45 percent

10.0 percent

158. Which of the following is a special case of annuity, where the stream of cash flows continues forever?

Select correct option:

Ordinary Annuity

Special Annuity

Annuity Due

Perpetuity

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159. **JJ Inc. has a 4 percent return on total assets of Rs. 500,000 and a net profit margin of 5 percent. Total sales for JJ Inc. would be :**

Select correct option:

Rs. 150,000

Rs. 200,000

Rs. 250,000

Rs. 400,000

ROTA = N.P / Total Assets

4 % = N.P / 500,000

4% * 500,000 = N.P

N.P = Rs. 20,000

N.P Margin = N.P / Sales

5 % = 20,000 / Sales

5% * Sales = 20,000

Sales = 20,000 / 5%

Sales = 400,000

160. **Which of the following rate makes the Net Present Value (NPV) equal to zero?**

Select correct option:

Average Accounting Return (AAR)

Internal Rate of Return (IRR) pg 109

Required Rate of Return (RRR)

Weighted Average Cost of Capital (WACC)

161. **Which of the following is the expected rate of return on a bond if bought at its current market price and held to maturity**

Select correct option:

Current Yield

Yield To Maturity

Coupon Yield

Capital Gains Yield

162. **If a firm uses cash to purchase inventory, its quick ratio will:**

Select correct option:

Increase

Decrease

Remain unaffected

Become zero

163. **a firm uses cash to purchase inventory, its current ratio will:**

Select correct option:

Increase

Decrease

Remain unaffected

Become zero



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